

City of San José

Three Year General Fund Structural Deficit Elimination Plan Stakeholder Group

April 21, 2008



Setting the Meeting Context

- Welcome and Introductions
- Overview of Stakeholder Group Process
- Purposes of Today's Meeting
- Review of Reference Material
- Planning the Meeting Schedule

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

2



Budget Outreach and Public Communication

- Budget “Roundtable” Format and Expectations
- Goal: Surface the Values Underlying Technical Information & Analysis
- Ground Rules for Good Communication:
 - Understanding before evaluation
 - Listen openly – speak candidly
 - Maximize participation

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

3



Preparing to Discuss Strategies

- Begin with Background Reports
- First . . . The Nature of the Structural Deficit Problem
- Goal Throughout: Strive for Simplicity on the Other Side of Complexity

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

4



Preparing to Discuss Strategies

Simplicity

- It will be easy to get stuck in budget complexities
- Let's try to keep moving though the complexities to get to the other side

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

5



INTRODUCTION TO THE GENERAL FUND STRUCTURAL DEFICIT ELIMINATION PROJECT

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

6



Introduction

- Three Year General Fund Structural Deficit Elimination Core Team
- Introduction to General Fund Structural Deficit Project
- Concept of “Urgent Strategies” which can be implemented between now and November 2008

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

7



What is the General Fund Structural Deficit?

- General Fund expenditures increasing faster than General Fund revenues
- City must have a balanced budget
- General Fund structural deficit made up of three main sub-components
 - Projected shortfall in operating costs
 - Unmet or deferred infrastructure and maintenance needs
 - Liability for retiree medical costs

April 21, 2008

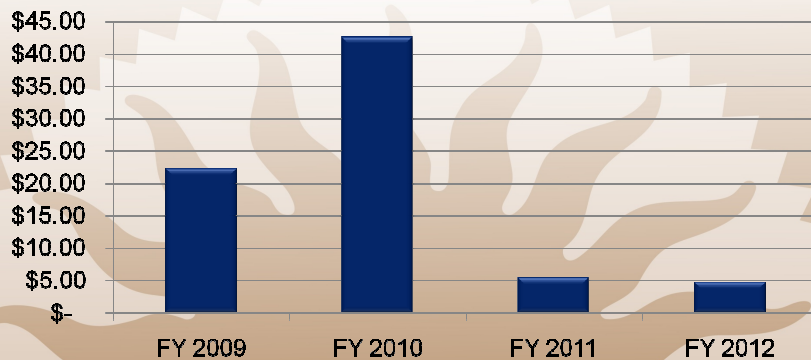
Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

8



Operating Deficit 2009-2012

Projected Operating Deficit
(in \$ millions)



April 21, 2008

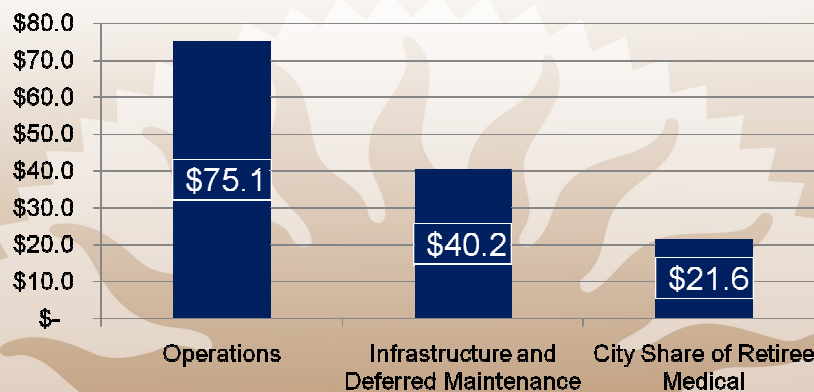
Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

9



The \$137 Million Challenge

FY 2009 - 2012 Structural Deficit by Type



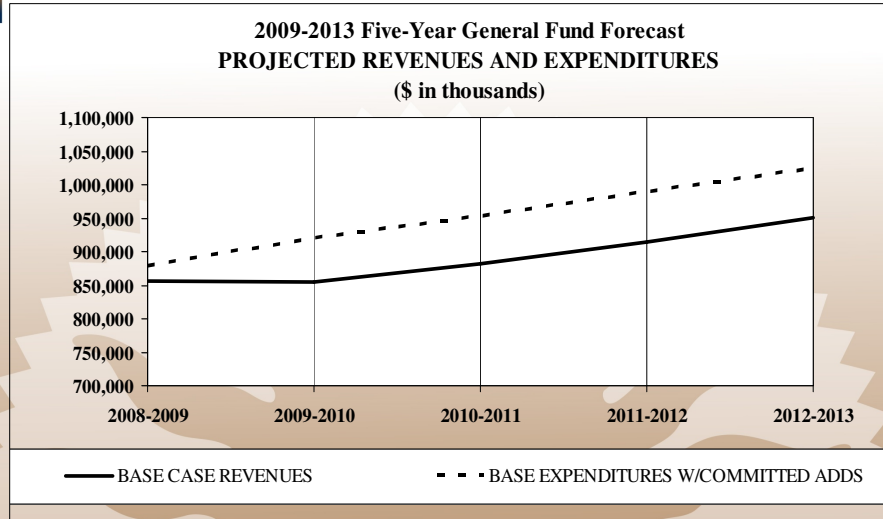
April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

10



General Fund Projections



April 21, 2008

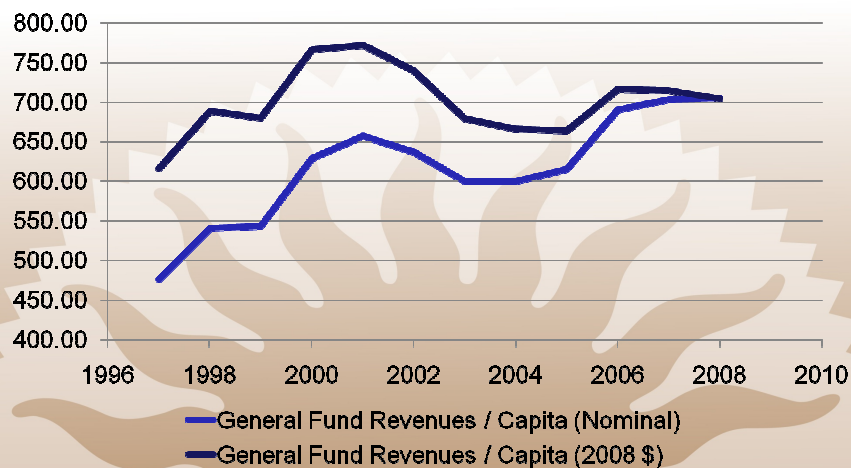
Three Year General Fund Structural Deficit
 Elimination Plan Core Team Presentation



11

Recent Revenue Trends

(in \$ hundred of millions)



April 21, 2008

Three Year General Fund Structural Deficit
 Elimination Plan Core Team Presentation



12

Key Questions to Explore Solutions

- What are priorities and suggestions from stakeholders to eliminate the deficit?
- Is City “at market” in terms of revenues, spending, and other key variables?
- What good ideas from other cities can be replicated in the City?
- Can strategy have significant impact within three years?

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

13



Top Priority Strategy Categories

- Revenue Strategies
- Service Delivery Model Changes
- Expenditure Controls and Shifts
- Service Reductions

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

14

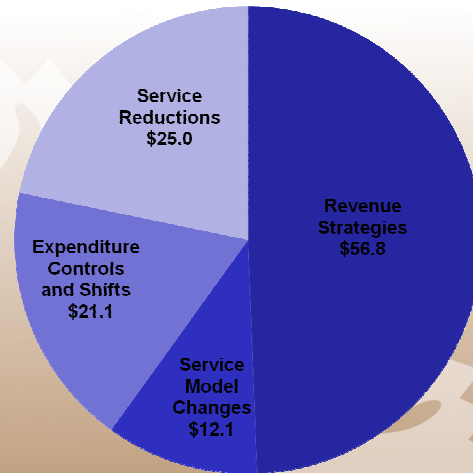


Strategies

Relative Contribution at Lower \$ Estimates

Strategies so Far

- 21 Top Priority Strategies
- Approximately 97 qualified sub-strategies
- Hundreds of employee and community suggestions



April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

15



Each Strategy Has Differing Implementation Complexities

FY 2008 – 2009

- Balance shortfall and begin implementation of urgent strategies

November 2009

- Strategic Plan for implementation of best strategies for revenue enhancement, and decreased General Fund expenditures from service delivery changes, controls and shifts

FY 2009 – FY 2012

- Implementation of Strategic Plan

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

16



Urgent Strategies Require Council and Community Support

Can Have an Impact in 2009 – Not All Will be Implemented

1. **Debt Based Financial Strategies**
2. **Asset Management**
3. **Employee Suggestion and Process Streamlining**
4. **Fully Cover Costs with Fees**
5. **City-Wide Assessment District**
6. Business Tax Modernization
7. Shift / Increase Construction Tax and Conveyance Tax Funding
8. Increase Transient Occupancy or Other Similar Taxes
9. Consider a City Sales Tax
10. Modernize the Utility Users Tax

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

17



Preparing to Discuss Strategies

- What Does “Timing Urgency” and “Immediate Opportunity to Implement” Mean?
- What Counts as an “Advantage” & “Concern”?
- Format for Discussing Strategies.
- Here we go with the first strategy . . .

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

18



Urgent Strategy #1

Utilize Financial Strategies that have Positive Net Present Value

- Strategy 1A – Annual upfront payment of City's pension payment obligations
- Strategy 1B – Pension Obligation Bonds

Strategy 1A – Annual Prepayment of City's Pension Obligations

- Currently biweekly pension payments
- Proposal to change payment frequency to one-time prepayment at the beginning of each fiscal year
- Contribution rate discounted as result of prepayment

Other Jurisdictions

- California Public Employees Retirement System (CalPERS) policy permitting annual prepayment at discount for participating agencies
- Los Angeles City Employees Retirement System

Potential Fiscal Impact

- Cost savings realized each year City prepays pension plans
- Annual savings estimated up to \$1.0 million

Implementation

Authority to Enact	<ul style="list-style-type: none">• Retirement Boards• City Council
Timeline/Key Steps	<ul style="list-style-type: none">• April 2008 – concept to Retirement Boards• May/June 2008 – Actuarial analysis of prepayment impact• June 2008 – Boards review and accept prepayment analysis, report and prepayment• June 2008 – Council amends Municipal Code to permit prepayment and accept pre-payment

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

23



Urgent Strategy 1A

Utilize Financial Strategies that have Positive Net Present Value

-- Annual upfront payment of City's pension payment obligations

Advantages & Concerns Discussion

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

24



Strategy 1B – City to Issue Pension Obligation Bonds

(Federated Retirement System)

- Reduce pension liability with debt
 - Federated Retirement Plan's long-term liability funded at rate of 82.7% funded
 - Benefit by issuing bonds, depositing proceeds with Retirement Plan
 - Retirement Plan has higher earnings rate than interest rate City pays on bonds

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

25



Other Jurisdictions

- Common form of financing used to reduce pension costs
 - Santa Clara County
 - Orange County
 - Long Beach
 - City of Fresno

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

26



Strategy Analysis

- Higher returns on investments available in pension funds
- Higher earnings would translate into lower retirement contribution rates for City
- Assumes financing to fund Plan at 90% level compared to current level of 82.7%

Potential Fiscal Impact

- Lower employer retirement contribution rates – interest paid on bonds = savings
- Annual savings estimated up to \$1.5 million escalating to over \$4.5 million in 10 years
- Cost to implement proposal includes consultant fees (reimbursable from bond proceeds) and additional staffing

Implementation

Authority to Enact	<ul style="list-style-type: none">• Federated Retirement Board• City Council
Timeline/ Key Steps	<ul style="list-style-type: none">• April 2008 – Concept to Federated Board• April/May 2008 – Team works on proposal• May 2008 – Presentation to Council• FY 2008-09<ul style="list-style-type: none">– Board, Council approvals– Court validation process– Issue bonds

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

29



Urgent Strategy 1B

*Utilize Financial Strategies that have
Positive Net Present Value*

-- Pension Obligations Bonds

Advantages & Concerns Discussion

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

30



Urgent Strategy #2

*Formalize and implement
a rigorous asset
management program*

Strategy Description

- What is “Asset Management”?
- What are San José’s “Real Property Assets”?
- What does the City do now

Other Jurisdictions

- City of San Diego, CA
 - Program based on best use
- City of Charlotte, NC
 - Program based on policy goals
- City of Seattle, WA
 - Program based on justified use of assets

Strategy Analysis

- Creating Asset Management Program
 - Policy
 - Organization Responsibility
 - Budget
 - Program Goals and Performance Measures
- Implementation of Asset Management Program
 - Complete asset inventory
 - Best Use Assessment of Assets

Potential Fiscal Impact

- One-time revenue from sales
- On-going revenue from market rate leases
- Reduced Operation & Maintenance Costs
- Estimates from other cities – \$3.3 M to \$5.0 M annually

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

35



Implementation

Authority to Enact	City Council
Timeline/ Key Steps	6 months: City Council Policy Development 12-18 months: Pursue full asset inventory while advancing Council approved transactions

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

36



Urgent Strategy 2

Formalize and implement a rigorous
asset management program

Advantages & Concerns Discussion

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

37



Urgent Strategy #3

*Implement an Employee
Suggestion and Process
Streamlining Program*

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

38



Strategy Description

- Use insight of City staff
- Emphasis on process streamlining to achieve cost savings

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

39



Other Jurisdictions

- State of Oregon
 - Rewards 10% of savings with \$5000 cap
 - Saved \$1.6 million over 3 years
- City of Phoenix, AZ
 - Allow ideas from employee department
 - Quick feedback; suggestions submitted online
- American Airlines
 - Over twenty years saved average of \$50 million a year

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

40



Strategy Analysis

- E-Ideas Program
- Areas to adapt
- Identify, implement process streamlining employee suggestions

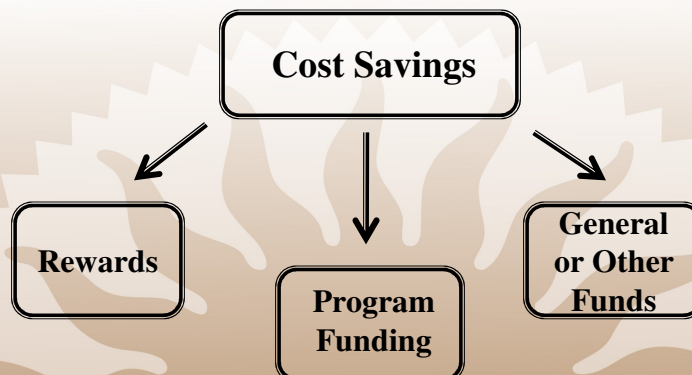
April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

41



Potential Fiscal Impact



April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

42



Implementation

Authority to Enact	City Council
Timeline	Six to twelve months
Key Steps	Council Action, Identify Start-up Funding; Employee Outreach

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

43



Urgent Strategy 3

Implement an Employee Suggestion
and Process Streamlining Program

**Advantages & Concerns
Discussion**

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

44



Urgent Strategy #4

*Ensure current fees fully
cover all costs*

Strategy Description

Ensure current fees fully cover all costs

- The City collects fees and charges currently for many City activities
- Most are full cost recovery
- New fees options exist

Strategy Policy Considerations

- Law allows for full cost recovery
- San José City Council set priorities
- Fees can help manage service demand
- San José has lower per capita revenues than its peers

Strategy Analysis

- Raise Existing Fees
 - Advance Planning Fee
- Create New Fees
 - Business Tax Administration Fee
 - Entertainment Zone

Potential Fiscal Impact

- On-going revenue generation
 - Directly affects General Fund
- Annual Approximate Fiscal Impact of Examples
 - Advance Planning: \$400,000
 - Business Tax Administration Fee: \$1,400,000
 - Entertainment Zone: \$400,000-\$600,000

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

49



Implementation Analysis

Authority to Enact	City Council
Timeline	Two to fifteen months
Key Steps	08/09 Master Fee Schedule Adoption; Determine implementation of new fees

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

50



Urgent Strategy 4

Ensure current fees fully cover
all costs

Advantages & Concerns Discussion

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

51



Urgent Strategy #5

*Implement City-wide Landscape
and Lighting Districts or other
Prop 218 “property-related” fees*

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

52



Strategy Description

- Special financing district
 - Funds installation and/or maintenance of infrastructure assets, (e.g. street landscaping, trees, sidewalks, and lighting)
- Annual assessments based on special benefit each property receives
- Mail-in ballot process to all property owners

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

52



Other Jurisdictions

No new L&L Districts established since Proposition 218

Jurisdiction	Formed	Annual Funding	Services	Comments
Campbell	1980	\$1 M; \$30-\$40 per parcel	Lighting, street lights, parks, landscape, curbs, gutters, sidewalks	Covers partial cost for services
Sacramento	1996	\$1.1M	Parks and lighting	Built in annual COLA
Oakland	1993	\$17M; \$106 per parcel	Parks, street landscaping, trees	Voters rejected an increase in 2006

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

54



Strategy Analysis

Example of Possible L&L District in San Jose

Service	Est. Total Annual Revenue	Est. Ave. Annual Cost per Parcel
Enhance and properly maintain street landscapes	\$6.5M	\$25.0
Structurally prune existing street tree inventory every 5 years Plant and establish 50,000 street trees along sidewalks	\$7.5M	\$28.0
Repair damaged sidewalks and curb/gutters	\$10.0M	\$38.0
Smart Street Light Retrofit	TBD	TBD

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

55



Potential Fiscal Impact

- Estimated annual revenue up to \$24M (without Smart Light Retrofit)
- Reduces on-going structural deficit up to \$15.6M (without Smart Light Retrofit)
- Reduces Deferred Maintenance Backlog by over \$50M over time
- Advances Green Vision goals

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

56



Implementation

Authority to Enact	Landscape & Lighting District Act of 1972 Proposition 218 Ballot
Timeline	2-3 years
Key Steps	Feasibility Analysis Engineering Report Public Outreach Develop Ballot Language, Poll

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

57



Urgent Strategy 5

Implement City-wide Landscape and
Lighting Districts or other Prop 218
“property-related” fees

Advantages & Concerns Discussion

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

58



Summary and Next Steps

- Summary of Main Findings, Themes & Follow-Up Actions
- Set Agenda for April 28 Meeting
- Other Items? Meeting Schedule, etc.
- Open Floor for Public Comment

April 21, 2008

Three Year General Fund Structural Deficit
Elimination Plan Core Team Presentation

59



City of San José

Three Year General Fund Structural Deficit Elimination Plan Discussion

April 21, 2008

